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A TARIFF POLICY FOR A CREDITOR NATION FROM A LOW TARIFF POINT OF VIEW

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THE tariff has always been greatly exaggerated, both by its defenders and by its opponents. The burden of a tariff is no heavier, if as heavy, on a prosperous nation than the enormous wastes in production, distribution and consumption which we tolerate constantly in our economic processes.

A tariff undoubtedly influences the general economic development of a country. It may reinforce or deflect the general movement of existing economic tendencies. I think the observers of our economic history are willing to admit that the protective tariff system has certainly, notably in individual industries, assisted in developing a considerable degree of industrial diversification in the United States. Students of the economic history of England point out that its free-trade policy has undoubtedly caused a serious deflection, so to speak, of its economic life, in the direction of a shipping policy and a large coal-export policy.

The tariff has such an influence, but it is not so important in the general organization and development of an industrial society as certain other more fundamental economic factors, such as the character of natural resources, enterprise, invention and organizing capacity. One chief reason why the tariff has always played such an exaggerated part in the national thought has been the fact that it is always in the center of political controversy. As a matter of fact, any protective tariff system—I may say even, any free-trade system—cannot be taken out of politics. There is no such thing as a scientific tariff.

A tariff has too much to do with the vital interests of classes, of great sections of a community; it is bound up in the economic and social life of a country in such a fashion that it cannot be taken out of politics. The tariff policy of a country always reflects the balance of its economic and social forces,

agricultural or industrial interests, or the balance as between one type and group of industries and another.

A tariff policy once established may have its details worked out in a much more scientific fashion than we as a nation have been accustomed to work them out. Such may be among the functions of a tariff board or commission, but neither in the past nor the future can a tariff board or commission lay down the basic tariff policy for a country. That is a political matter and will be left to the politicians to settle, as representing the conflict of interests in the country. It follows from this that the situation in this country today cannot be handled from the standpoint of pure theory; it must be treated as an economic-political problem.

The political controversy which has raged on the tariff has helped to obscure certain simple facts in the situation. Ever since economics passed out of the stage of crude mercantilism at the close of the eighteenth century; in other words, as soon as men commenced to reflect upon the facts of economic life and pierced somewhat below the surface to more underlying things, most economists, with differences in minor points, have come to certain fundamental agreements in regard to the tariff problem.

It is fairly obvious, they tell us, that you cannot sell without buying. Goods and services must exchange for goods and services, both in domestic and foreign trade; you cannot export without importing. This reciprocity of trade is mutually advantageous. But the old mercantilist point of view was the narrower one: that what I gain, you lose. In the eighteenth century, some one had the happy idea that that was not so, that in any fair trade both sides were satisfied or they would not trade. It is claimed that this reciprocal satisfaction in trade stimulated an increasing degree of specialization. This is true both for individuals producing for exchange and for nations exchanging their products. Thus we come to what is known as the fundamental argument of the free trader—the advantages of geographic specialization.

The argument is that there is more real wealth resulting from each individual and each social group doing what it is or becomes best fitted to do by its resources, by its inheritance and by its training. There is more wealth for the world as a whole

obtained from that type of social cooperation. There is no doubt, for instance, in anybody's mind of the great advantage to the United States of a free and untrammelled exchange within its own regions, the largest free-trade area in the world, encircled by our tariff ring.

Furthermore, the economists are agreed in the main that protection is an admission of inferiority and weakness in the industry or the group of industries demanding it. Such production is necessarily at a disadvantage. If it were not producing at a higher cost there would be no need for protection, since there would be no importation of the foreign commodity. The nation taxes itself by a scale of higher prices in order to give the particular protected interest or group of interests an equality with the foreign producer. To the geographical specialization argument for free trade, there is added the admission of a definite burden or economic loss, to be carried by the country taxing itself to maintain a protective system.

But on the other hand, from Adam Smith down, certain important admissions are made by the defenders of free trade in regard to the protective tariff system. Quite apart from so obvious a case as a countervailing tariff on imports of those commodities which suffer from a domestic excise tax, certain other exceptions to the rule are often allowed.

It is admitted that this national cost may be worth paying, first, for certain industrial products and industries necessary for the national defence. The demand for protection to the chemical industries today is an example which has been borne in upon us by the lessons of the recent war.

In the second place, the cost may be worth paying, within reasonable limits, for the encouragement of infant industries and for the diversification of national enterprise, since geographical specialization is not a static but a dynamic condition. These limits should include, for the United States particularly, the adaptability of the protected industry to our large-scale machine methods, such, for instance, as the silk industry showed itself to be capable of. Furthermore, there are limitations of time, since necessarily an infant must some day become adolescent and adult.

It is also admitted generally that any change in the existing system should not be made abruptly, but with great circumspection.

* * *

It is clear that the present trade situation is abnormal, that it is beyond any sure guidance of precedent. We have seen an enormous development of exports, running up to unheard-of figures, owing to the war and to the inevitable consequences of the war. We had in 1919 a so-called favorable trade balance, unfortunately so-called, of exports over imports which is almost ten times as large as the trade balance which was customary for the 15 or 20 years before the war—over \$4,000,000,000 in 1919.

This trade balance has been made possible by great loans to our allies in Europe, enabling them to buy the necessary food and supplies for the carrying on of the war. This situation was a part of our necessary contribution to the winning of the war. It has resulted in an abrupt change of this country from the position of a debtor nation to that of a creditor nation. Before the war, it was estimated that we owed approximately somewhere between \$4,000,000,000 and \$5,000,000,000. Our former debt balance to Europe of interest and payment for services rendered was settled by the export of goods. The so-called favorable balance was simply the recognition of a debtor position on the part of this country.

Similarly, our credit balance, which now exists in the form of certificates of indebtedness, must ultimately be settled by importation of goods and services. There is no avoiding that conclusion. This payment, however, resulting naturally in an excess balance of imports over exports is not immediately in prospect. There are a number of retarding factors to be considered and here we enter into that realm of guesswork, of problematical situations, which Mr. Kies has so admirably pointed out in his paper.¹ There may be, and that will depend a good deal upon political as well as commercial factors—a continuing outflow of capital from this country abroad, an outflow not merely to Europe in distress, or an outflow necessary for the reestablishment of our debtors on a sound basis, but also an export of investment capital in connection with our commercial enterprise in other parts of the globe.

The item of tourist expenditure, which used to be estimated before the war at somewhere between \$150,000,000 and \$200,000,000 a year, is likely to increase, at least after the

¹ See *supra*, p. 145.

immediate effects of depression in this country are over. The remittances of immigrants which, until shortly before the war, never were estimated high enough but which we came to realize were running somewhere between \$100,000,000 and \$200,000,000 a year before the war and which the best investigations have put for 1919 at \$300,000,000 are likely to continue, even despite business depression, at a fairly high figure. The remittances of immigrants, however, on the debit side of the account, will be somewhat balanced by the expected inflow of immigration to this country, each immigrant bringing not only himself but a certain amount of money with him.

One item in the balance of trade which used to be a fairly considerable one is now I think, subject to grave doubt for the future. I refer to shipping freight charges for which we formerly paid the foreign carrier by the export of goods, and which many had hoped our new mercantile marine would transfer to the other side of the account. A very large tonnage of shipping is on our hands as the result of the war needs, built at the high cost of war prices, now probably in excess of what this country can permanently manage. There was a small group of men experienced in the shipping business and there was a period of high shipping rates bound to be only temporary in character. That situation demanded action which should have taken the form of prompt and drastic cancellation of orders which should have called for the sale abroad of a considerable portion of the smaller ships, and should have called also for the sale at low prices, within reach of the market, of ships which could have gone into the hands not merely of the older companies competent to handle them, but of the new men, the new capital, the new enterprise that must be called into existence if we are to have a large mercantile marine.

While England was disposing of her excess war tonnage at approximately \$100 a ton, our Shipping Board was offering it at \$225 a ton and practically failed to sell this tonnage at the time when it could have been sold, when new capital and new enterprise could have come in and gained experience of the business during a period of high shipping profits.

Now that combination of conditions is past. It looks as though we must count, looking this situation squarely in the face, on having to "scrap" a good many of our hopes in regard

to a mercantile marine. We certainly are not safe in counting profits for our services as carriers to any considerable amount in this balance.

Even if we attempt as some of our recent discussion indicates, to make ourselves a hermit nation, involving the further raising of the tariff barrier, already one of the highest in the world, the cutting off of immigration, the sale of our shipping, the cancellation of our debt—these are all involved in the notion of a hermit nation—we may postpone for a number of years, but we cannot possibly evade nor can we possibly refuse our position ultimately as a creditor nation. We have wiped off the debts which we formerly owed abroad, and we are bound from the expansive forces inherent in our situation to become ultimately a creditor nation.

The normal tendencies which existed before the war, after the worst of the present "abnormalcy" is over, will gradually reassert themselves. These normal tendencies which have been developing clearly over a period of a generation are, first, the decline in the export of foodstuffs; second, the growth in the exports of manufactures. There will emerge definitely the period when we shall cease to be on the balance a food-exporting nation. We shall be an industrialized country and no longer predominantly agricultural. We have already reached the stage when we are barely self-feeding.

This condition which was already visible before the war, coupled with tendencies which will undoubtedly come to the front and develop themselves as soon as the present quite abnormal situation has passed away, is fairly comparable to the English experience from the close of the eighteenth century to the middle of the nineteenth, when first England ceased to be a food-exporting country and became a food-importing country, with a rapidly growing export of manufactures and when ultimately the manufacturers themselves came to ask for the reduction of tariffs.

It is not necessary to argue for any sudden reversal of our tariff policy. In fact, for a few years it ought to be held rather stable and conditions at home and abroad watched with the greatest care, but it seems clear that it is not a sound national policy to move in the direction of raising our already high protective duties. The further exclusion of foreign goods ten-

dered to us in payment of our credit balance will result (a) in the inability of our European debtors to purchase from us, affecting both our agricultural as well as our industrial exports; (b) in increased and successful efforts on the part of our European debtors to develop markets in other regions—South America, Asia, Africa—to which our own manufacturers are looking hopefully for the sale of our swelling total of exports; (c) in the impossibility of establishing a merchant marine, except at prohibitive cost.

We are brought face to face in this country with our destiny as a predominantly industrial nation possessing an enormous domestic market, but with a steadily growing need for wider foreign markets. We cannot, however, much as we may struggle temporarily with our fate, remain permanently an isolated self-sufficient nation. Our imports must of necessity increase until they surpass our exports. From being a nation with a predominant export of raw materials which other nations were compelled to seek from us, we are inescapably on the way now to a position where, as normal trade relations are established, our manufacturers will be anxiously seeking an outlet in keenly competitive markets for export trade predominantly industrial in character. The manufacturers themselves will in no distant future be asking not for higher tariffs but for lower tariffs. They will find that we cannot sell without buying, and the development of geographical specialization will reach the point where our diversified industries, if adapted to low-cost machine production, must find outlets in foreign markets. The policy of this nation as it becomes effectively a creditor nation must be for a gradual, a well considered, but steady, reduction of our protective tariff.